SAT

THE WASHINGTON POST DATE 10 Sep 73 PAGE 3

CIA May Scrap Airline It Doesn't Need

Plan to Sell Southern Air Transport Stirs Controversy

By Jack Egan
Washington Post Staff Writer

The Central Intelligence Agency appears to be changing its mind about selling an airline it no longer seems to need and may decide to liquidate it instead.

Opposition by competitor airlines, some strong congressional pressure and a spate of press stories seem to have caused the publicity-shy spy agency to back off from its attempt to spin off Southern Air Transport and reconstitute it as a legitimate business enterprise.

In the past ten days, Southern Air Transport—which is the subject of an extremely secret change of ownership proceeding at the Civil Aeronautics Board—has turned down a lucrative Air Force contract and announced it will not press to renew valuable flight authority in another CAB hearing.

"The CIA is not interested in getting too public," according to one congressional source close to the intrigue, and the affair so far has been "saddled with too much fuss and fanfare."

Earlier this year Southern Air Transport (not connected in any way with Southern Airlines, a scheduled carrier) bid successfully for a $3.8 million share of a $38.3 million Air Force contract for domestic cargo service.

The award, however, was challenged by two other supplemental or charter airlines who previously had the so-called Logair contracts to themselves. They claimed that Southern was government-controlled, pointing toward the CIA and that it was "fundamentally unfair that a taxpaying privately owned company should be compelled to bid against another firm . . . actually supported by government funds."

The General Accounting Office, the congressional watchdog agency responsible for reviewing bid challenges, skirted the factual issue of who actually owns Southern Air Transport and decided in early August that no conflict of interest existed.

But three weeks after the favorable ruling, Southern informed the Air Force it was no longer interested. "They gave no explananation, they just withdrew," said Col. John Miller, chief of the Air Force's contract management division.

At the same time that the bid challenge was being examined by GAO, Stanley G. Williams, president and chief executive officer of Southern, was trying to get CAB permission to buy out his partners—two former government officials—and gain 100 per cent control of the airline for $5.1 million.

But three supplemental airlines feared potential competition from an airline with some valuable operating authority and one that would now no longer merely be a front operation. They challneged the ownership transfer on the same grounds: that Southern was "owned and controlled by the United States government" since 1960.

The airlines claimed that Southern had received heavy government subsidies through Air America, a Southeast Asia air operation frequently linked in the past to the CIA. The airlines further claimed that the government had in effect nationalized Southern when it was acquired and that under the Federal Aviation Act, it could not be validly certificated. Therefore, there was no certificate to transfer, they argued.

No decision on the ownership change is expected for several months. However, Southern at the end of last week informed a separate CAB hearing looking into renewal of international authority for charter airlines that Southern would no longer "prosecute its applications," in effect giving up its valuable transpacific and Caribbean operating rights.

That was the authority the competitor airlines were most concerned about.

In effect this leaves the airline only with domestic cargo and passenger authority, and worldwide rights to carry Defense Department cargo.

Attorneys for the challenging airlines indicate that Southern Air Transport had approached each of them several weeks ago offering both to turn down the Air Force contract and to let the CAB operating rights lapse if the airlines in turn would drop their objections to the change in ownership title. The airlines contend they either ignored the offer or rejected it outright.

It appears, however, that Southern has unilaterally gone ahead with the steps it offered—hoping to either mitigate the opposition before the CAB or, as some attorneys interpret it, to prepare for a liquidation of the airline. They note that the airline would have a hard time making a profit if it has given up its most lucrative authority.

No spokesmen for Southern Air Transport were available for comment on the moves yesterday.

According to a congressional source, liquidation by the CIA is a strong possibility. He explained that Southern had sought the Air Force contract as a way of tiding the airline over in its transition to a private enterprise operation, and in order to facilitate getting financing for the airline.

"In order to get credit you need business," he said, "and an Air Force contract is just a form of credit."

He pointed out that strong congressional pressure from top-ranking House and Senate members with close ties to both the CIA and Defense Department had been brought to get Southern Air Transport to back off from its Air Force contract.

He added, however, that the Air Force was interested in keeping Southern Air Transport in operation, not as a favor to the CIA but because it had valuable aircraft capacity.

Another Congressional source said he thinks that Southern Air Transport was too eager in bidding for the Air Force work and therefore aroused the competitor airlines, which caused all the pressure.